

# Report of the auditor-general to the Free State Legislature and the council on the Ngwathe Local Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

I was engaged to audit the financial statements of the Ngwathe Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for disclaimer of opinion

#### Payables from exchange transactions

I was unable to obtain sufficient appropriate audit evidence for an unexplained difference between the amount disclosed in the financial statements for payables and the supporting schedules. I was unable to confirm this difference by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transaction stated as R1 192 398 553 (2017: R1 003 268 224) in note 16 to the financial statements.

#### Property, plant and equipment

I was unable to obtain sufficient appropriate audit evidence for work-in-progress included in property, plant and equipment as the municipality did not maintain adequate supporting audit evidence for recorded values. The municipality did not recognise property, plant and equipment in accordance with GRAP 17 *Property, plant and equipment*. Completed assets were incorrectly classified as work-in-progress; work-in progress was also incorrectly valued as some projects in the work-in-progress register had negative values. Some projects in the work-in-progress register could not be verified and all items that met the definition of an asset were not recognised as property, plant and equipment. Infrastructure assets completed were not capitalised. In addition, roads were also not componentised. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R869 917 305 (2017: R866 985 088) in note 11 to the financial statements.

#### Irregular expenditure

The municipality did not disclose all instances of irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the Municipal Finance

Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA). The municipality made payments in contravention of the supply chain management (SCM) requirements, which were not disclosed. In addition, the municipality incorrectly disclosed the expenditure transactions inclusive of VAT in the irregular expenditure register. I was unable to determine the full extent of the understatement of irregular expenditure in note 52 to the financial statements, as it was impracticable to do so.

### **Service charges**

I was unable to obtain sufficient appropriate audit evidence for service charges as the municipality did not have adequate systems to estimate the billing of water and electricity, and to account for flat rates where electricity meters were broken. There is also no evidence to support the billing method used to bill some of the municipality's consumers. In addition, the municipality did not account for revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Differences were identified between the billed service charges and the recalculation performed. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the service charges stated at R263 978 219 (2017: R261 919 438) in note 22 to the financial statements.

### **Bulk purchases**

I was unable to obtain sufficient appropriate audit evidence for bulk purchases due to a lack of supporting documentation for journals processed to the bulk purchases account in the general ledger. I was unable to confirm bulk purchases by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to bulk purchases stated as R214 812 687 in note 36 to the financial statements.

### **Commitments**

I was unable to obtain sufficient appropriate audit evidence for commitments due to the unavailability of contracts and the breakdown of expenses relating to projects in the commitment register. I was unable to confirm commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments stated at R194 573 660 in note 42 to the financial statements.

### **Receivables from exchange transactions**

I was unable to obtain sufficient appropriate audit evidence for the gross balance of receivables from exchange transactions due to lack of supporting documentation for journals processed to the receivables from exchange account in the general ledger. I was unable to confirm the gross balance for receivables from exchange transactions by alternative means. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for as the impairment method used by the municipality does not provide details on how some categories of receivables are impaired. In addition, the municipality did not account for debt impairment in accordance with GRAP 104, *Financial instruments*, the differences were identified between the debt impairment recognised and the recalculation performed. Furthermore, I was unable to obtain sufficient appropriate audit evidence for unexplained differences between the supporting schedule

and the amount disclosed for bad debts written off. The municipality did not calculate the bad debt write off in accordance with the approved policy, differences were identified between the bad debt write off recorded and the recalculation performed. I was unable to confirm the impairment and bad debts written off by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated as R143 471 181 (2017: R68 897 896) in note 4 to the financial statements.

### **Employee benefit obligations**

I was unable to obtain sufficient appropriate audit evidence for the post-employment medical aid benefit, due to the municipality not providing the basis used to determine the eligibility of employees who qualify for the benefit. I was unable to confirm the post-employment medical aid benefit by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the post-employment medical aid benefit stated at R71 994 000 in note 20 to the financial statements.

### **Depreciation and amortisation**

I was unable to obtain sufficient appropriate audit evidence that depreciation had been properly accounted for, due to the unavailability of the acquisition date and cost for some assets in the fixed asset register. I was unable to confirm depreciation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to depreciation on property, plant and equipment stated as R82 043 909 (2017: R65 775 720) in note 32 to the financial statements.

### **Receivables from non-exchange transactions**

I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions has been properly accounted for as the impairment method used by the municipality does not provide details on how some categories of receivables are impaired. In addition, the municipality did not account for debt impairment in accordance with GRAP 104, *Financial instruments*, the differences were identified between debt impairment recognised and the recalculation performed. Furthermore, I was unable to obtain sufficient appropriate audit evidence for unexplained differences between the supporting schedule and the amount disclosed for bad debts written off. The municipality did not calculate the bad debt write off in accordance with the approved policy, differences were identified between the bad debt write off recorded and the recalculation performed. I was unable to confirm the impairment and bad debts written off by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions stated as R26 376 444 (2017: R19 591 247) in note 5 to the financial statements.

### **Investment property**

I was unable to obtain sufficient appropriate audit evidence for investment property as the municipality did not maintain adequate supporting audit evidence relating to the reclassification of investment property to inventory and property, plant and equipment. The municipality revised the accounting policy for investment property from the fair value model

to the cost model, although it does not provide more relevant information about the effects of transactions, other events or conditions on the financial position, performance or cash flows, as required by GRAP 3, *Accounting policies, estimates and errors*. Furthermore, no supporting audit evidence could be obtained to substantiate the cost used for investment property. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to investment property stated as R26 184 200 (2017: R26 184 200) in note 10 to the financial statements.

#### Government grants and subsidies

The municipality did not account for government grants received in-kind, as required by GRAP 23, *Revenue from non-exchange transactions*. Consequently, government grants and subsidies stated as R258 018 166 in note 29 to the financial statements was understated by R11 882 205. Additionally, there was a resultant impact on property, plant and equipment, the deficit for the period and the accumulated deficit.

#### Property rates

The municipality did not account for property rates, as required by GRAP 23, *Revenue from non-exchange transactions*. The municipality did not have adequate systems of internal control for the accurate billing of property rates transactions as some properties that were classified as businesses in the valuation roll were incorrectly billed residential tariffs. Consequently, revenue from non-exchange transactions as stated in note 27 was understated by R10 173 008. Additionally, there was a resultant impact on receivables from non-exchange transactions and deficit for the period.

#### Cash flow statement

I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures in the cash flow statement comparatives. As described in note 45 to the financial statements, the restatement was made to rectify previous years' misstatements, but the restatement could not be substantiated by supporting evidence. I was unable to confirm the cash flow comparative figures by alternative means. Consequently, I was unable to determine whether adjustments were necessary to the comparative figures disclosed in the cash flow statement.

#### Distribution losses

The municipality did not correctly account for distribution losses as the estimated prepaid electricity sales were used to calculate the distribution losses, not the actual sales report which includes all conventional sales. The calculation for distribution losses was also incorrectly performed as the number of units sold were added to the number of units purchased to calculate the distribution losses. Consequently, I was unable to determine the full extent of the misstatement of distribution losses in note 53 to the financial statements, as it was impracticable to do so.

#### Material uncertainty relating to going concern

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Note 48 to the financial statements indicates that the municipality incurred a net loss of R188 140 529 during the year ended 30 June 2018 and, as of that date, the municipality's total liabilities exceeded its total assets by R354 137 193. The creditor's payment period increased to 998 days from 794 days in the previous financial year. In addition, the municipality owed Eskom R931 905 488 (2017: R758 940 364) and the Department of Water Affairs R92 844 292 (2017: R86 587 268) as at 30 June 2018 which is long overdue. These events or conditions, along with other matters as set forth in note 48, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

#### **Emphasis of matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

As disclosed in notes 45 and 46 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

#### **Fruitless and wasteful expenditure**

As disclosed in note 51 to the financial statements, fruitless and wasteful expenditure of R35 631 889 (2017: R103 497 839) was incurred due to interest and penalty charges on late payments.

#### **Unauthorised expenditure**

As disclosed in note 50 to the financial statements, unauthorised expenditure of R168 145 340 (2017: R79 673 244) was incurred due to overspending of the municipality's budget.

#### **Other matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Unaudited disclosure notes**

In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

#### **Responsibilities of the accounting officer for the financial statements**

The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of GRAP, the MFMA and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the accounting officer is responsible for assessing the Ngwathe Local Municipality's ability to continue as a going concern, disclosing, as

applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

#### **Auditor-general's responsibilities for the audit of the financial statements**

My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

#### **Report on the audit of the annual performance report**

##### **Introduction and scope**

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>KPA</b>	<b>Pages in the annual performance report</b>
KPA 2: Basic service delivery and infrastructure development	4 – 28

I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

## **KPA 2: Basic service delivery and infrastructure development**

### **To ensure access to quality sport and recreational facilities in Ngwathe municipal area 2022**

The strategic objective approved in the service delivery and budget implementation plan (SDBIP) was “To ensure access to quality sport and recreational facilities in Ngwathe municipal area 2022”. However, the objective reported in the annual performance report was “To ensure access to quality Sport Recreation in Ngwathe municipality by 2022”

The strategic objective approved in the SDBIP was “To ensure access to quality sport and recreational facilities in Ngwathe municipal area 2022”. However, the objective was changed to “To ensure access to quality Sport Recreation in Ngwathe municipality by 2022” without the necessary approval.

### **To ensure that 100% formal Households in Ngwathe Municipality Have access to descent Sanitation by 2022**

The strategic objective approved in the SDBIP was “To ensure that 100% formal Households in Ngwathe Municipality have access to descent Sanitation by 2022”, However, the objective reported in the annual performance report was “To ensure that 100% of households in formal settlements in the Ngwathe municipal area have access to descent sanitation by 2017”.

The strategic objective approved in the SDBIP was “To ensure that 100% formal Households in Ngwathe Municipality Have access to descent Sanitation by 2022”. However, the objective was changed to “To ensure that 100% of households in formal settlements in the Ngwathe municipal area have access to descent sanitation by 2017” without the necessary approval.

### **KPI 120 - Provide support to 10 Cooperatives and facilitate 4 workshops**

The planned target “Provide support to 10 cooperatives and facilitate 4 workshops” for this indicator was not specific in clearly identifying the nature and required level of performance. The target is not specific since it speaks to 2 indicators and reads as an indicator. Targets should be presented either in numbers or percentages.

### **Various indicators**



The municipality did not have an adequate record keeping system to enable reliable reporting on the achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree to the reported achievements. The planned targets for these indicators were also not specific in clearly identifying the nature and required level of performance. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below.

<b>Indicator number:</b>	<b>Indicator description:</b>	<b>Reported achievement per client listings used to report on the APR:</b>	<b>Number of households in billing report:</b>	<b>Number of households in a valuation roll:</b>
KPI 102	Provide standard access of refuse removal to all households	4 reports (39 120)	54 221	29 315
KPI 103	Provided standard access of refuse removal to all business	4 reports (8 341)	864	999

The municipality did not have an adequate record-keeping system to enable reliable reporting on the achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence for the achieved target; while in other cases the supporting evidence provided did not agree to the reported achievements. Based on the supporting evidence that was provided, the achievement of this indicator was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicator as listed below:

<b>Indicator number:</b>	<b>Indicator description:</b>	<b>Reported achievement per client listings used to report in the annual performance report:</b>	<b>Reported achievement as per annual performance report:</b>



KPI 120	Provide support to 10 Cooperatives and facilitate 4 workshops	3	2
KPI 127	Feasibility Study, Environmental Assessment and design - Koppies Edenville Bulk Pipeline	0% - the progress report as at year end is presented for audit	20%

#### Various indicators

The source information, evidence and method of calculation for achieving the planned indicator was not clearly defined for the following indicators:

Indicator number:	Indicator description:
KPI 120	Provide support to 10 Cooperatives and facilitate 4 workshops
KPI 128	Vredefort Water Treatment Works -Trident System
KPI 129	Upgrading Bulk Supply Phase 2 Tumahole
KPI 137	Improved Access - Bridge Crossing

#### Various indicators

The measures taken to improve performance against targets were not included in the annual performance report for the following targets:

Indicator number:	Indicator description:	Target
KPI 135	Upgrade 1km internal road in Schonkenville	100% upgrade

KPI 137	Improved Access - Bridge Crossing	100% improvement
KPI 120	Provide support to 10 Cooperatives and facilitate 4 workshops	4

#### Various indicators

The targets for the indicators listed below were changed without obtaining the necessary approval.

Indicator number:	Indicator description:	Initial target:	Revised target:
KPI 102	Provide standard access of refuse removal to all households	1	4
KPI 103	Provided standard access of refuse removal to all business	1	4
KPI 120	Provide support to 10 Cooperatives and facilitate 4 workshops	Provide Support to 10 Cooperatives and SMMEs and facilitate 4 workshops on commonage	Provide support to 10 cooperatives and facilitate 4 workshops
KPI 127	Feasibility Study, Environmental Assessment and design - Koppies Edenville Bulk Pipeline	100% Completion Phase 1	100%

#### Other matters

I draw attention to the matters below.

#### Achievement of planned targets

Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 35 to 44 of this report.

#### Adjustment of material misstatements

I identified material misstatements in the annual performance report submitted for auditing.

These material misstatements were on the reported performance information of KPA 2 – basic service delivery and infrastructure. As management subsequently corrected only

some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings on compliance with specific matters in key legislation are as follows:

### **Annual financial statements**

The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were subsequently provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimed opinion.

### **Expenditure management**

Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. This mainly related to suppliers for which agreements had not been entered into.

Reasonable steps were not taken to prevent irregular expenditure of R97 136 638 as disclosed in note 52 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM requirements.

Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R35 631 889 as disclosed in note 51 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments relating to electricity.

Reasonable steps were not taken to prevent unauthorised expenditure amounting to R168 145 340, as disclosed in note 50 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by the overspending of the approved budgets within the main divisions of the vote.

An adequate management, accounting and information system was not in place to recognise expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.

### **Asset management**

An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

### **Procurement and contract management**

Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements, as the requested information was not submitted by management.

Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value above R200 000 were procured by inviting competitive bids and that deviations were only approved by the accounting officer if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1). Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).

Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for the required minimum period, as required by SCM regulation 22(1) and 22(2).

Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.

Some contracts were awarded through competitive bidding processes that were not adjudicated by the bid adjudication committee.

Sufficient appropriate audit evidence could not be obtained that bid adjudication committees were always composed in accordance with SCM regulation 29(2).

Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No.5 of 2000) (PPPFA).

Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for bidding, as required by SCM regulation 21(b) and 28(1)(a) and Preferential Procurement Regulations.

Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No.38 of 2000) and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.

The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

## Human resource management

Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000) (MSA).

### **Strategic planning and performance management**

The integrated development plan did not reflect a financial plan as required by section 26 (h) of the MSA and municipal planning and performance management regulation 2(3)(a).

The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

Performance targets were not set for each of the key performance indicators for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

### **Consequence management**

Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Revenue management**

An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

An effective system of internal control for revenue and debtors was not in place, as required by section 64(2)(f) of the MFMA.

Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Accounts for service charges were not prepared on monthly basis, as required by section 64(2)(c) of the MFMA.

### **Liability management**

An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

#### **Other information**

The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected KPAs presented in the annual performance report that have been specifically reported in this auditor's report.

My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPAs presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

#### **Internal control deficiencies**

I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Management did not address the shortcomings within the internal control environment relating to financial reporting. Reliance was placed on consultants to perform year-end accounting work and the compilation of the financial statements. Due to the late appointment of consultants, however, not all these shortcomings were addressed.

Management also did not prioritise the review and monitoring of compliance with legislation, which resulted in repeat findings. This was due to a lack of consequence management as officials were not held accountable for non-compliance.

Weaknesses in the processes and controls pertaining to asset management were not adequately addressed. The lack of regular monitoring and reconciliation of asset information resulted in the asset register not being reliable. These weaknesses gave rise to material misstatements in the annual financial statements.



Management did not have adequate controls in place to ensure proper record keeping, which resulted in material limitations in the audit.

AUDITOR-GENERAL

Bloemfontein

30 November 2018



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## 6.2 AUDIT ACTION PLAN

### OFFICE OF THE MUNICIPAL MANAGER

**ACTION PLAN TO ADDRESS AUDIT QUERIES / MATTERS ARISING FROM THE REPORT OF THE  
AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

